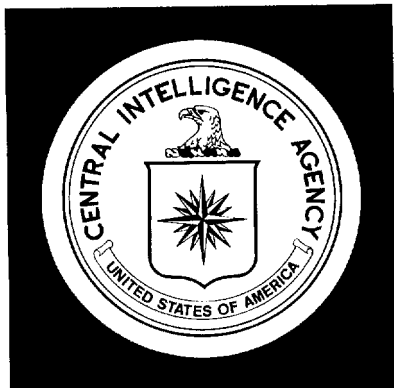
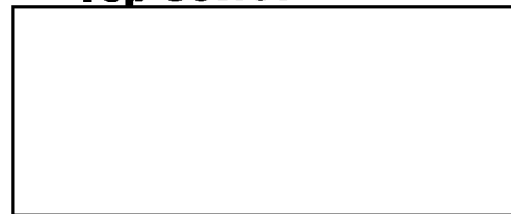


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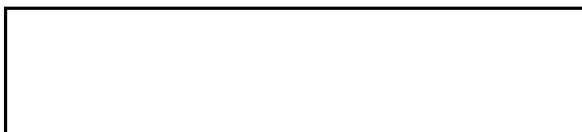


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USSR-MBFR: In a private conversation with US officials, Soviet First Deputy Foreign Minister Kuznetsov has summarized the Soviet approach to force reductions in Europe.

Kuznetsov told Under Secretary of State for Economic Affairs Casey that reductions should apply to both stationed and indigenous forces. He did not specify whether Moscow was in favor of reducing both categories simultaneously or whether the Soviets could accept the US approach of phased reductions starting with US and Soviet forces stationed in the reductions area. Until August, the Soviets appeared to accept the US concept, but there have been hints since then that Soviet interest in reducing West German forces would lead Moscow to favor simultaneous reductions.

Kuznetsov said that detailed instructions for the Soviet delegation to the force reduction talks are still being prepared. He listed three other basic points, however, that would go into those instructions.

--No harm should be done to the security interests of any state.

--Stationed troops should return to their homeland with their armaments.

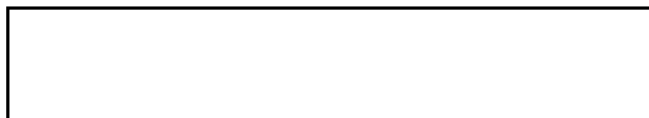
--Only the eleven "full" participants should make decisions at the talks.

Each of these has been a staple of the Soviet position for some time. Moscow has used the first point to attempt to head off "balanced" reductions which they view as possibly leading to greater reductions of Soviet than US forces. The second point suggests the Soviets will oppose any Western proposal that would leave equipment for US forces prepositioned in Europe; it also may be designed to meet Western fears that Soviet forces would only be

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shifted to another East European country, e.g., Hungary, outside the reduction zone. The third point reflects the Soviet desire to avoid problems with Romania which is not one of the full participants.

Kuznetsov also made a strong pitch for continued US-Soviet consultation on force reduction questions. He noted that "we" had worked out many problems during the preliminary talks and urged similar bilateral contacts when the substantive talks open in Vienna on 30 October.

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USSR-YUGOSLAVIA: Kosygin's week-long trip to Yugoslavia marks another step in the general improvement in bilateral relations that has been taking place since 1971, but left the two countries still at odds on some fundamental issues.

The Soviet Premier predictably stressed socialist cohesion while his hosts predictably emphasized nonalignment and separate roads to socialism. The Yugoslavs obtained favorable references to nonalignment and respect for the "existing characteristics" of the two countries in the final communiqué, and there was no reference to socialist internationalism.

The specific problems with which the two sides wrestled were economic, presumably focusing on the use of the \$540-million credit the Soviets extended to Yugoslavia last year. However, the communiqué speaks only in generalities about increased cooperation and does not indicate what, if any, specific agreements were reached. There are references in the communiqué to long-term cooperation and planning, paralleling recent CEMA efforts, but these intentions are expressed in purely bilateral terms and CEMA is not mentioned.

Kosygin visited four Yugoslav republics, including Macedonia, where his presence was exploited by the Yugoslavs as support for their position in the eternal feud with Bulgaria. In a later speech, however, Kosygin's extensive praise for Soviet nationality policy, while passing lightly over Yugoslavia's efforts in this field, offended some Yugoslavs.

International affairs received some attention during the visit, particularly during a brief meeting between Kosygin and Tito. The communiqué shows the two sides in agreement on the Chilean coup, the Middle East, and Indochina. The Conference on Security and Cooperation in Europe received a bland endorsement, but more controversial topics, such as the attitude of the two countries toward China and force reduction in Europe, were not mentioned.

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EUROPEAN COMMUNITIES: A meeting of the EC Commission last week confirmed that the Common Agricultural Policy (CAP) will not be fundamentally changed soon. The "adjustments" that the Commission has in mind, however, are a step toward cutting the EC's expenditures for farm support.

The long-heralded "revision" of the community's controversial farm policy--which risked provoking a severe internal crisis--has been downgraded to a "review" of some of its implementing mechanisms. The changed world agricultural situation, marked by concern over shortages and not surpluses of basic commodities, is partly responsible for changing the conditions of the coming EC debate. In effect, French arguments against lowering the degree of EC agricultural self-sufficiency have gotten a boost from the changed international outlook.

The Commission will nevertheless seek to reduce the community's wheat surplus, which has absorbed a large portion of EC farm support payments. The Commission is now thinking of proposing an effective lowering of the wheat support price.

On dairy products, the Commission envisages reducing the EC's butter surplus by cutting butter support prices and possibly by requiring producers to bear part of the cost of remaining surpluses. This proposal may touch off heated debate among the Nine--in part because the poorer farmers will be among those most affected. If these measures were accompanied by increased beef production, however, this would help solve the problem of lower incomes for farmers now producing dairy products and would also improve the prospects for US feedgrain sales to the EC.

Precise proposals that the Commission may make to increase community production of protein feedstuffs--including soybeans--are unclear, although Paris probably will continue to insist that the EC

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make some effort in this direction. French spokesmen have pointed out that any interference with US soybean exports would be minimal, since the community's production capability--located almost entirely in France--could meet only a small percentage of EC needs.

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INTERNATIONAL MONETARY DEVELOPMENTS: The annual International Monetary Fund meeting in Nairobi, originally planned to mark the half-way point in the schedule for world monetary reform, merely underscored continuing disagreements among members. A new deadline of 31 July 1974 was set for general agreement on reform. Many capitals, however, are skeptical that even this schedule can be met.

The French anticipate hard negotiations between Finance Minister Giscard d'Estaing and Treasury Secretary Shultz before agreement can be reached. Giscard has presidential ambitions and French Government circles think his chances for success in 1976 will depend in large part on a successful performance in the negotiations. Giscard reportedly will wait for Washington to propose compromises and is expected to remain adamant on French demands for continued controls on short-term capital movements, for mandatory currency convertibility, and for ultimate national sovereignty over exchange rate adjustment. Paris is more flexible on the links between gold and Special Drawing Rights (SDRs) and between SDRs and development aid. Despite public protestations to the contrary, Paris reportedly does not attach much importance to the SDRs-aid link. President Pompidou, in his recent press conference, also showed an increased willingness to negotiate about gold's future role as a reserve asset.

West German Finance Minister Schmidt supported Secretary Shultz' position that a new monetary system could not be introduced until the dollar is stabilized. Schmidt, however, reiterated Bonn's opposition to the US proposal that changes in reserves should be the primary indicator of a need for payment adjustment. He suggested IMF consultations when a country experiences balance-of-payments problems, with a new politically sensitive body at the highest IMF levels to settle disputes.

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The developing nations have strongly criticized US opposition to the SDRs-aid link. They urge approval of the World Bank's \$4.5-billion budget for international assistance over the next three years. The oil-producing states, led by Libya, are firmly opposed to any new monetary system that would infringe on their prerogatives to manage monetary reserves as they see fit.

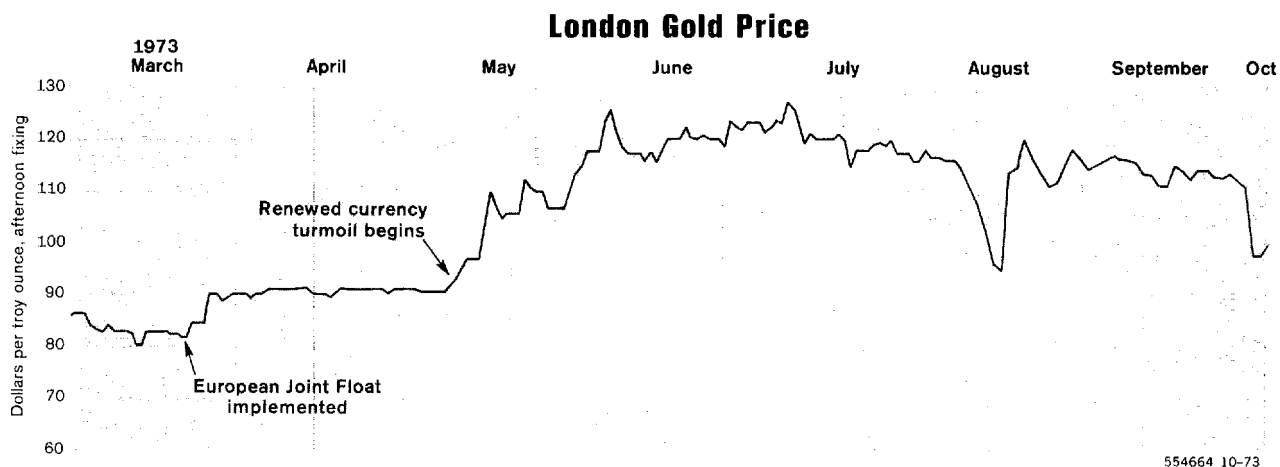
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GOLD: The price of gold remained below \$100 an ounce for the third consecutive day yesterday, the first time since May. Speculative demand for gold seems to have subsided, in part because there was no indication at the annual IMF meeting in Nairobi that an increase in the official price was in the offing. The dollar's stability and high interest rates also have dimmed gold's appeal somewhat.

Meanwhile, gold suppliers continued their relatively heavy sales. Two weeks ago, South Africa, the world's largest gold producer, sold gold from reserves in addition to sales from new output in order to pay for increased imports. The Soviet Union, the world's second largest producer, also is believed to be continuing its weekly sales. Soviet sales through June totaled about 200 metric tons, compared with about 158 tons in all of 1972. Commercial demand for gold appears normal.

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ARGENTINA: Juan Peron's call for a purge of all Marxist elements from his movement and from the government will pit radical leftist youth and labor groups against moderates in the Peronist movement.

Marxist influence is pervasive within the Peronist youth groups, some labor unions, and several provincial governments. Suspicions that left-wing Peronists were responsible for the recent killing of a key labor leader could explain Peron's decision to strike out at such elements within his own camp, as well as at the outlawed terrorist organizations.

The first casualty of the "ideological purification" campaign was the government-appointed head of the University of Buenos Aires, a former Communist Party member, who had allowed leftists to gain influence in the institution. His forced resignation has set off protests from students, who have occupied buildings and may resist removal with arms that are said to be hidden at the university.

The potential for trouble is perhaps greater within the labor movement, particularly in the strife-ridden industrial city of Cordoba where leftist influence is widespread and ideological feuds within the labor unions have led to violence in the past. If Peron's order to exclude Marxists is implemented by mass expulsions from the unions, violence could be in the offing. The US Embassy notes that there is also a danger that the term "Marxists" could be applied indiscriminately to justify action against anyone who opposes Peron.

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IRAQ-INDIA: Baghdad has reneged on its widely publicized agreement in principle to supply India with 112 million tons of crude oil over the 1976-1985 period. The Iraqis claim that the agreement would set a precedent and other countries would seek similar treatment. As a result of the Iraqi action, India has been denied crude-oil supplies that were expected to make up about one third of crude imports by 1978. Although New Delhi has intensified its search for domestic crude oil, sharply increased domestic production is still a long way off. Imports account for about two thirds of crude-oil requirements and New Delhi will continue to search aggressively for guaranteed crude-oil supplies abroad.

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EAST GERMANY: With the elevation of Premier Willi Stoph to the post of chief of state, SED chairman Erich Honecker has further tightened his grip on the East German regime.

Stoph was elected by the parliament on 3 October to replace the late Walter Ulbricht as chairman of the council of state, and Stoph's deputy, Horst Sindermann, was chosen to succeed him. Stoph and Sindermann share a reputation for possessing a measure of political appeal, a rarity in East Germany. However, Sindermann is generally regarded as a Honecker protege, whereas Stoph has at times reportedly been a Honecker rival. Stoph's new post is largely ceremonial, while Sindermann gains enhanced influence and prestige.

Long anticipated, the Stoph-Sindermann transfer follows by one day changes in the party Politburo that resulted in the installation of a number of Honecker loyalists.

In terms of policy, little change can be expected. The main guidelines are likely to remain: close adherence to Soviet foreign policy directives, demarcation from West Germany, and some slight domestic liberalization.

Now that Honecker has strengthened his base in the party and government superstructure, however, he may seek to move away from the collective leadership principle and toward personal dominance.

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CHINA: Peking's purchase of a \$300-million petrochemical complex from France last week raises plant purchases this year to about \$900 million--about five times the previous record established in the mid-1960s. The petrochemical complex purchase is the largest single import contract China has ever signed with a Western country.

France now ranks first as a supplier of whole plants to China, with sales reaching \$400 million this year. Japan, with \$315 million in sales, is a close second; the Netherlands, the US, the UK, and West Germany have also made sales. Chinese interest in imported plants continues; they are negotiating for a \$375-million steel complex with Japan and West Germany.

Most of the purchased plants are for the fertilizer and synthetic fiber industries. The sharp increase in purchases reflects Peking's new emphasis on foreign trade, and shows that the government has decided to make much greater use of foreign equipment and technology to increase agricultural production and provide more consumer goods. [REDACTED]

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FOR THE RECORD*



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USSR-Syria: Damascus has received its third OSA-class guided-missile patrol boat from the USSR.

[redacted] The introduction of this type boat has increased Syria's coastal surveillance and patrol capabilities. Damascus has six smaller Komar-class guided missile boats, each of which carries two Styx surface-to-surface missiles compared with the four carried by the OSA. [redacted]

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Finland: The US Embassy in Helsinki reports that President Kekkonen instructed the Finnish ambassador in Brussels yesterday to sign the draft free-trade agreement with the EC. [redacted]

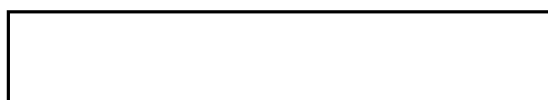
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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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SPECIAL NATIONAL INTELLIGENCE ESTIMATE

The United States Intelligence Board on 1 October 1973 approved the following special national intelligence estimate:

SNIE 36-73

The Yemens

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